

82D CONGRESS
1st Session

} HOUSE OF REPRESENTATIVES }

REPORT
No. 703

PROVIDING FOR THE CONTROL BY THE UNITED STATES AND
COOPERATING FOREIGN NATIONS OF EXPORTS TO ANY NATION
OR COMBINATION OF NATIONS THREATENING THE SECURITY
OF THE UNITED STATES, INCLUDING THE UNION OF SOVIET
SOCIALIST REPUBLICS AND ALL COUNTRIES UNDER ITS
DOMINATION

JULY 16, 1951.—Committed to the Committee of the Whole House on the State
of the Union and ordered to be printed

Mr. BATTLE, from the Committee on Foreign Affairs, submitted the
following

REPORT

[To accompany H. R. 4550]

The Committee on Foreign Affairs, to whom was referred the bill (H. R. 4550) to provide for the control by the United States and co-operating foreign nations of exports to any nation or combination of nations threatening the security of the United States, including the Union of Soviet Socialist Republics and all countries under its domination, and for other purposes, having considered the same, report favorably thereon with amendment and recommend that the bill do pass.

The amendment is as follows:

On page 5, line 6, strike out the word "Forces", and insert in lieu thereof the word "Services".

I. THE PROBLEM

The Congress and the American people want to make sure that our enemies are not assisted in building up their war machine by trade from the United States and our allies. When we read in the newspapers that the steamship *Flying Cloud* under the American flag had been fired on while attempting to deliver a cargo of war materials to Communist China; when it was implied over the radio that a west coast pier was piled high with tires awaiting shipment to the Chinese mainland to equip the vehicles of the Communist army; when it was reported that Italian factories which had received Marshall plan

materials and equipment are producing heavy machinery for Russia; and when information was received that a major industry in the United Kingdom was booked so far ahead with orders for Russia, under a trade agreement, that the plants could not produce equipment for British rearmament, it appeared that immediate and drastic action should be taken.

In an effort to make sure that nothing is left undone to safeguard our fighting men, so far as trade of war materials is concerned, the chairman of the Committee on Foreign Affairs appointed a special subcommittee to consider H. R. 1621 and H. R. 1939 and to make an examination of the effectiveness of the control of exports to Russia and her satellites from the United States Government and from our friends and allies. Both H. R. 1621 and H. R. 1939 provide that no economic or financial assistance shall be furnished by the United States to foreign countries which permit the export of war materials to the iron-curtain area. The special subcommittee, under the chairmanship of Hon. Laurie C. Battle, Alabama, with Hon. Omar Burleson, Texas; Hon. Edna F. Kelly, New York; Hon. Robert B. Chipperfield, Illinois; and Hon. John M. Vorys, Ohio, as members, held executive hearings beginning March 5, 1951, and made a comprehensive study of this situation.

The subcommittee directed its efforts toward determining the current status of controls of exports to the Soviet bloc by the United States and by other nations; to appraising the effectiveness of these controls; and to determining what legislative action should be taken in order to make the controls of such shipments more effective.

The Committee on Foreign Affairs has given careful consideration to the report of its subcommittee and has invited the comment of the departments and agencies of the executive branch which are directly concerned with this matter on the report of the subcommittee and on a draft bill prepared by the subcommittee. As a result, the committee reports favorably H. R. 4550, which in its judgment provides a comprehensive and constructive procedure which takes into account the complexity of the problems involved while firmly and clearly defining the United States policy in this field and providing for its effective administration.

II. CURRENT STATUS OF UNITED STATES CONTROLS

The United States began to control exports to Russia and the satellite countries in the interest of our national security in March 1948. Control of exports to China was initiated in early 1950. Beginning in March 1950, exactly the same regulations were applied to China as were being applied to Russia. Since December 4, 1950, no export to China has been approved by the United States.

In the case of Hong Kong and Macao (Portuguese), major transshipment ports to Communist China, a close scrutiny is made of all exports from the United States. All items of recognized military value are embargoed and even shipments of such things as small plastic combs have been curtailed to prevent their being used in China as incentive goods.

The responsibility for export control is in the hands of the Office of International Trade of the Department of Commerce. As of December 31, 1950, export licenses were required for 1,280 separate commodity listings, and 20 percent of the volume of United States exports to all destinations were subject to license. Beginning in January 1951 export licenses were required not only for these items but also for any other export destined to the Soviet orbit. Included in this number are approximately 300 items of strategic significance which are prohibited from being exported to the Russian-dominated area, together with some 400 items which are permitted to be shipped to the Soviet bloc in limited quantities only. The identity of these strategic items is kept secret. All requests for licenses to ship these products behind the iron curtain are denied or restricted. The other commodities which are subject to license are regulated as to quantity depending on their destination, the contribution they are likely to make to the defense of the free world, and the tightness of the supply in the United States.

American-flag ships and aircraft, since the first week in December 1950, have been prohibited from calling at any port controlled by the Chinese Communists, and from discharging cargo destined for Communist China, regardless of the origin or nature of the commodity. This action was taken under the authority of the Defense Production Act of 1950.

That these controls have significantly reduced the flow of exports from the United States to the Soviet bloc is indicated by the following table in which statistics have been presented for quarterly periods so that effective comparison of current performance during 1950 can be made:

United States trade with Soviet bloc—United States exports to the Soviet bloc, by country—Quarterly average, 1947-49; quarterly, January-September 1950

[Thousands of dollars]

Quarterly average or quarter	Total Soviet bloc	Czechoslovakia	Hungary	Poland and Danzig	Albania
Total exports, including reexports:					
1947 average.....	173,381	12,274	3,215	26,926	1,139
1948 average.....	99,162	5,391	2,007	13,919	86
1949 average.....	36,138	5,448	1,337	5,842	32
1950:					
First quarter.....	27,734	3,662	2,348	2,896	153
Second quarter.....	12,873	3,368	807	1,218	6
Third quarter.....	26,524	2,610	93	4,271	9
Fourth quarter.....	4,991	903	230	539	1

Quarterly average or quarter	Rumania	Bulgaria	U. S. S. R.	China and Manchuria
Total exports, including reexports:				
1947 average.....	3,770	368	37,308	88,381
1948 average.....	1,886	522	7,001	68,350
1949 average.....	802	347	1,662	20,668
1950:				
First quarter.....	467	186	180	17,842
Second quarter.....	851	212	395	6,016
Third quarter.....	153	353	36	118,999
Fourth quarter.....	538	106	141	2,533

¹ Of this amount \$17,204,000 is cotton.

The trend of United States trade with the countries under Russian domination is shown in the following table:

Total United States export and import trade with the Soviet bloc of Eastern Europe and Asia, by country

[Value in thousands of dollars]

EXPORTS FROM THE UNITED STATES, INCLUDING REEXPORTS

	1947	1948	1949	1950	
				Year	Fourth quarter
Total, Soviet bloc.....	693,354	396,639	144,550	72,382	4,991
To—					
Albania.....	4,556	344	127	169	1
Bulgaria.....	1,471	2,086	1,389	857	106
Czechoslovakia.....	49,094	21,563	21,792	10,543	903
Estonia.....	8	7	17		
Hungary.....	12,859	8,029	5,348	3,478	230
Latvia.....		1	X		
Lithuania.....	16	115	12		
Poland and Danzig.....	107,705	55,675	23,367	8,924	539
Rumania.....	15,079	7,542	3,209	2,009	538
U. S. S. R.....	149,069	27,879	6,617	752	141
China.....	353,498	273,398	82,673	36,974	2,532
Manchuria.....				8,676	1

GENERAL IMPORTS TO THE UNITED STATES

Total, Soviet bloc.....	224,946	233,483	173,768	226,306	65,470
From—					
Albania.....	8			43	8
Bulgaria.....	4,651	831	1,664	2,348	667
Czechoslovakia.....	23,210	22,125	20,875	26,606	6,543
Estonia.....	X	X	X	X	
Hungary.....	1,501	1,613	1,756	1,864	569
Latvia.....		6	1		
Lithuania.....	X	10	7	2	
Poland and Danzig.....	1,335	1,249	3,335	11,136	2,451
Rumania.....	435	480	584	282	155
U. S. S. R.....	77,102	86,825	39,193	38,242	5,469
China.....	116,705	120,345	106,352	145,783	149,610

Prepared in the Department of Commerce by International Economic Analysis Division, Office of International Trade, from basic data of the Bureau of the Census, March 1951.

See footnote on following page.

III. CURRENT STATUS OF CONTROLS BY FOREIGN COUNTRIES

As a result of negotiations in which the United States has taken the initiative, all of the countries of Western Europe embargo to the Soviet bloc, including China, all arms, ammunition, implements of war, and atomic energy materials, and in addition most of the Western European countries also embargo items of strategic importance that would be useful in building up the Communist war machine, a total of nearly 300 commodity listings. These represent about 90 percent of the items which the United States considers to be of primary strategic significance and therefore completely embargoes to the Soviet bloc. In addition, in response to suggestions by the United States, certain individual nations in various other parts of the world are controlling shipments to the Soviet bloc of the limited number of strategic commodities which they produce.

These controls are the result of our discussions with individual countries. Although action has been initiated by the United Nations against China (as recommended by the House Foreign Affairs Sub-

committee on International Organizations), there has been no formal, unified action or announced policy to control exports to Russia and the European satellites by the United Nations, the Marshall plan countries (as a group, although nearly all have taken individual action), or the North Atlantic Treaty Organization countries, or any other recognized group of nations. Since late in 1949, however, United States

¹ The large increase in the value of United States imports from China indicated by the figure for the fourth quarter apparently is accounted for by 2 primary factors: first, the rise in commodity prices and, second, the general increase in commodity buying which occurred in all parts of the world after the outbreak of the fighting in Korea. A detailed breakdown appears in the following table:

UNITED STATES IMPORTS FROM CHINA

(Values in thousands of dollars)

Commodity	Annual value		Quarterly value (1950)			
	1949	1950	First	Second	Third	Fourth
General imports, total.....	106,351	145,783	25,781	31,849	38,544	49,610
Foodstuffs.....	9,268	13,593	2,582	3,300	4,052	3,659
Meat products.....	816	1,482	473	312	260	436
Egg yolks, dried.....	1,196	3,869	473	1,164	1,196	1,036
Vegetables, fruits and nuts, and preparations.....	2,862	3,771	909	1,281	916	665
Tea.....	1,186	1,035	190	154	281	410
Spices.....	1,347	1,406	245	129	319	714
Cassia and cassia vera unground.....	1,244	1,308	227	100	295	686
Animals and products, inedible.....	27,111	40,716	7,282	7,686	13,286	12,462
Hides and skins, raw (except furs).....	1,996	2,590	266	774	1,040	510
Furs and manufactures.....	4,011	5,924	1,653	1,434	1,639	1,199
Bristles sorted, bunched or prepared *.....	16,528	26,581	4,530	4,081	9,571	8,400
Feathers, crude.....	4,369	5,295	774	1,321	965	2,235
Vegetable products, inedible.....	11,115	22,598	2,509	5,288	6,474	8,327
Sesame seed.....	328	1,049	50	135	441	422
Vegetable oils and waxes.....	9,663	20,162	2,279	4,924	5,635	7,324
Tung oil.....	8,340	18,647	1,565	4,684	5,338	7,061
Textile fibers and manufactures.....	29,131	50,432	7,578	10,119	14,712	18,024
Cotton waste.....	711	3,344	122	607	882	1,734
Cotton manufactures.....	3,221	4,695	531	804	1,117	2,243
Flax, hemp, and ramie, and manufactures.....	7,956	6,997	751	948	1,903	3,395
Handkerchiefs of vegetable fiber other than cotton.....	6,960	5,903	570	725	1,681	2,927
Wool, unmanufactured.....	6,046	18,385	2,782	5,023	6,906	3,675
Carpets and carpeting, mats, rugs, etc.....	3,396	5,602	1,210	1,031	1,515	1,846
Hair and manufactures.....	2,482	3,884	636	981	876	1,390
Animal hair, unmanufactured.....	1,367	2,400	422	675	521	782
Silk and manufactures.....	1,442	3,408	164	227	978	2,039
Hats, bonnets, and hoods, composed wholly of straw, paper, etc.....	2,482	2,400	1,029	208	160	1,003
Wood and paper.....	1,932	1,499	370	390	286	452
Wood manufactures.....	1,501	1,173	323	309	209	333
Nonmetallic minerals.....	1,020	886	150	173	236	326
Clay and clay products.....	857	540	112	115	111	202
Metals and manufactures.....	13,001	11,340	7,840	1,100	1,140	1,259
Tungsten ore and concentrates *.....	4,219	6,854	5,965	186	374	329
Tin bars, blocks, pigs, scrap, and alloys.....	6,693	2,592	1,626	532	122	311
Brass manufactures.....	181	242	46	49	45	102
Chemicals and related products.....	2,607	4,465	680	623	790	2,372
Menthol.....	835	3,347	524	363	634	1,826
Firecrackers.....	1,505	850	121	200	87	441
Artworks and antiques.....	861	1,088	332	83	54	620
All other imports.....	1,817	1,434	519	314	314	288
* General imports were as follows:						
Bristles sorted, bunched or prepared (thousands of pounds).....	22,891	29,386	5,831	5,189	7,639	10,727
Tungsten ore and concentrates (thousands of pounds tungsten content).....	4,399	331	78	189	24	40

representatives have met regularly with officials of the principal industrial and trading countries of the North Atlantic community in an informal group created for the purpose of concerting their policies and procedures in the field of security export controls. This group has provided day-to-day consultation and full coordination in dealing with these problems.

It should be emphasized that no other country is applying as broad controls to these exports as does the United States. No other country has accepted completely our lists of strategic items to be embargoed or restricted. No other country except Canada has placed a complete embargo on shipments to China. Once agreement has been reached that exports of certain items will be prohibited, the control operates without friction, but there is continuous discussion and frequent disagreement among countries as to the shipment of items subject to quantity limitation rather than embargo.

The control procedures of certain countries are not effective in accomplishing the desired results. This is in part because, although the countries of Europe have had much longer experience in controlling exports than has the United States, their control systems have been based primarily on the desire to conserve foreign exchange. As a consequence, they have not attempted to differentiate between commodities and to screen individual shipments as to end use in the way we do in the United States. Their technical methods in some cases, therefore, are not as effective as ours.

The Congress has on three occasions enacted legislation directed at curtailing the shipment of strategic materials to the iron-curtain countries by foreign nations. In the Foreign Assistance Act of 1948 (Public Law 472, 80th Cong.), section 117 (d), provided that—

the Administrator is directed to refuse delivery insofar as practicable to participating countries of commodities which go into the production of any commodity for delivery to any nonparticipating European country which commodity would be refused export licenses to those countries by the United States in the interest of national security. * * *

The Cannon amendment, approved September 27, 1950 (Public Law 843, 81st Cong., ch. XIII, sec. 1304), provides:

During any period in which the Armed Forces of the United States are actively engaged in hostilities while carrying out any decision of the Security Council of the United Nations, no economic or financial assistance shall be provided, out of any funds appropriated to carry out the purposes of the Economic Cooperation Act of 1948, as amended, or any other Act to provide economic or financial assistance (other than military assistance) to foreign countries, to any country whose trade with the Union of Soviet Socialist Republics or any of its satellite countries (including Communist China and Communist North Korea) is found by the National Security Council to be contrary to the security interests of the United States.

According to the evidence presented to the subcommittee, the National Security Council has never cut off assistance to any country under the authority of this legislation.

In May 1951, Congress adopted the Kem amendment, Third Supplemental Appropriation Act, 1951, section 1302 (Public Law 45, 82d Cong.), which repeals the Cannon amendment and establishes more specific controls. The Kem amendment prohibits economic or financial assistance, during any period in which the Armed Forces of the United States are actively engaged in hostilities while carrying out any decision of the Security Council of the United Nations (actions of

Security Council subject to Russian veto), to any country which exports to Russia or the satellites—

arms, or armament, or military matériel, or articles, or commodities * * * which may be used in the manufacture of arms, armaments, or military matériel, or shipment of which to the Soviet bloc is embargoed by the United States * * *.

The Secretary of Defense is required to certify what articles are to be included. All recipient countries have to certify that they have not exported any of the prohibited items to any of the iron-curtain countries within 15 days after the effective date of the amendment. The National Security Council is authorized to make exceptions to any provisions "in the security interest of the United States." All such exceptions have to be reported to the appropriate committees of the Congress.

The nature and extent of the trade between Western Europe and Eastern Europe is shown in the following table:

Western Europe:¹ Trade with Eastern Europe,² 1948-49 and January-June 1950

(Value in thousands of dollars)

	Exports			Imports		
	1948	1949	January-June 1950 ³	1948	1949	January-June 1950 ³
Total trade.....	582,457	765,012	267,636	890,266	888,636	323,903
Selected commodities or groups:						
Livestock.....	3,443	1,900	-----	675	7,391	5,979
Meat.....	2,080	7,907	621	13,974	32,319	20,678
Foodstuffs.....	39,561	32,998	11,179	35,520	51,943	15,971
Grain.....	1,112	4,388	1,803	181,314	133,475	62,193
Sugar.....	121	14	3	8,676	15,933	6,881
Tobacco.....	408	5,871	5,670	4,362	5,407	1,359
Fats and oils of animal and vegetable origin.....	31,476	30,821	3,211	5,361	2,238	3,427
Wood and wood products.....	3,892	9,453	1,607	55,633	56,619	11,094
Pulp and paper.....	13,225	8,654	3,601	14,194	6,339	2,249
Rubber and products.....	2,977	3,713	2,691	2,094	1,972	613
Hides and skins.....	901	1,718	1,063	306	954	37
Wool.....	35,044	33,413	10,796	172	1,466	106
Textiles.....	38,204	39,344	23,242	39,949	38,031	11,429
Asbestos.....	396	-----	-----	640	1,561	448
Precious stones.....	27	1,752	38	1,339	618	213
Petroleum products.....	626	-----	42	4,459	2,043	598
Coal and coke.....	1,737	564	1	208,074	203,451	61,069
Iron and steel and manufactures.....	23,285	33,247	30,020	37,506	34,470	9,531
Copper.....	6,504	14,048	4,804	617	256	42
Zinc.....	3,022	3,439	435	355	274	3
Lead.....	126	3,845	1,402	794	278	42
Tin.....	5,525	6,077	4,570	3	-----	-----
Minerals.....	3,547	12,503	1,389	6,516	9,016	1,665
Metal ores including ferroalloys, primary materials.....	2,976	16,467	6,209	4,675	9,609	1,163
Chemicals (includes pharmaceuticals, dyes, and paints).....	43,151	53,196	14,819	11,991	17,020	10,746
Electrodes.....	712	286	-----	174	579	-----
Electrical apparatus.....	4,968	17,049	1,097	46	25	-----
Machinery and apparatus.....	93,561	164,770	78,126	28,665	22,252	9,571
Transportation equipment.....	26,932	29,757	8,729	11,456	27,076	8,940
Ships.....	323	1,017	800	12	-----	-----

¹ Western Europe includes Austria, Belgium-Luxemburg, Denmark, France, Germany, Greece, Italy, Netherlands, Norway, Switzerland, Sweden, Turkey, and the United Kingdom.

² Eastern Europe includes Albania, Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, and U. S. S. R. Finland and Yugoslavia are not included.

³ The January-June 1950 figures exclude the trade of Portugal, Switzerland, and Turkey. For the full year 1950 the value of Switzerland's exports to Eastern Europe (ex-Finland and Yugoslavia) amounted to \$75,172,000. The value of imports for the same period amounted to \$44,495,000.

NOTE.—The figures shown above should be interpreted as rough estimates and not as an accurate tabulation of the trade of Western Europe with Eastern Europe. The data was assembled from compilations made from the published sources of the Western European countries which were based on principal commodities only. The figures in the above tabulation, therefore, do not necessarily represent the entire trade in the individual items with Eastern Europe. Any unidentified balance would be included in the "all other" category of the commodity group. Arbitrary decisions had to be made in an attempt to match the basket group with the list of selected items; thus, the margin of error is probably substantial.

IV. NATURE OF SHIPMENTS THAT HAVE OCCURRED

Shipments originating in the United States

It should be noted that the largest number of shipments to the Russian bloc reported involve incidents that occurred before specific controls were initiated. As has been shown, a comprehensive control of exports from the United States has been in effect since early 1948. The items included and the degree of tightness applied to shipments to particular destinations have varied from time to time. Most of the variations have been deliberate to conform to changes in our foreign policy. Nothing that has been officially determined to be of strategic value is permitted to go to the countries behind the iron curtain. Exports of some nonstrategic items to Russia and the European satellites are permitted primarily because of the value to us and to our allies of the commodities we get in return.

A considerable number of cases have been reported in the newspapers and mentioned to the subcommittee which involve leakage of strategic items to the countries behind the iron curtain by means of in-transit shipments frequently through the so-called free ports of Europe. In-transit shipment problems have arisen even when orders were placed in the United States by middlemen located in countries which were cooperating with us in our export-control program. Such shipments were diverted by the middlemen while en route to an ultimate destination that would have caused us to cancel the order if this had been known in the beginning.

This sort of thing is aggravated by the existence in Europe of the free ports (including Rotterdam, Copenhagen, Basle, Antwerp, and others) which provide facilities where cargoes can be unloaded, warehoused, and reshipped without paying customs duties or legally entering the country. As a consequence, such shipments never come under the jurisdiction of the country and are not subject to any export control procedures it may employ. The transshipment business has been a major source of income over a period of many years for several of the smaller countries of Europe and they are very reluctant to do anything to interfere with it.

Nevertheless, the United States has recently taken measures to tighten the control over exports originating in this country against diversion in transit to the Russian-dominated area. This situation has been dealt with from two principal directions. One is to check in order to make sure that ultimate user and country of destination are known and examined before an export license is granted. The other has been to maintain a list of trading firms which have been involved in unauthorized transactions with Russia and the satellites and to keep strategic items out of their hands.

The in-transit shipment problem is even greater in cases of shipments originating in certain cooperating nations.

Shipments originating in foreign countries

The subcommittee was told that most trade by foreign nations with the Soviet bloc is based on transactions in which a substantial benefit is gained from the commodities received from behind the iron curtain in return for the goods supplied. The much-publicized case of the Italian factories, partially rebuilt by Marshall plan funds, which manufactured locomotives, cranes, and electric generating equipment for shipment to Russia falls in this category.

This transaction was part of a known trade agreement and went forward with the full knowledge and approval of the United States Government. It was maintained before the subcommittee that the items in question, while they could be of military significance in larger sizes, are too small to aid the Soviet war machine. The cranes are 5 and 7½ tons capacity, the locomotives are 35 tons, and the electric generators are 500 horsepower. It was pointed out that Italy received in return important quantities of wheat, steel, and strategic materials.

There have been frequent reports of shipments of strategic materials from and through Germany to the area behind the iron curtain. This situation is acknowledged by our officials to be still quite unsatisfactory. The difficulties arise from two basic factors. The first is the reluctance of the West Germans to accept the Russian zone of Germany as a foreign country and to impose satisfactory border controls as well as to regard sales to that area as exports. The other is the loose system of export control used by the West German Government. This system is now being tightened up but this process has been slow partly because of the recent transfer of administrative authority from HICOM (Allied High Commissioner for Germany) to the German Federal Republic.

There is a substantial legal flow of exports from Western Germany to the Russian zone and to the Balkan countries in addition. This trade results in important shipments into Western Germany of grain and materials which are regarded as essential to the German economy.

There are today a number of items which the United States prohibits entirely from being exported to the area behind the iron curtain, but which are not embargoed by other nations even though these nations agree with us that most of them are of strategic significance and should therefore be carefully controlled. Other nations undertake to limit shipments of most of these items. Certain materials and types of equipment, on the other hand, are in dispute as to their essentiality to the Soviet war machine, or have been uncontrolled for other reasons. The list of such items is not long and the executive agencies of our Government have maintained that serious harm was not being done. Negotiations are reported to be continuing with the objective of getting complete agreement among our allies and the recipients of our aid on export control policy.

Many countries in various parts of the world are not cooperating with United States efforts to cut off war materials from the Soviet Union and the satellites. In part, this is due to the fact that, except for the recently initiated action of the United Nations with regard to China, no official program has been undertaken for getting their cooperation. There are a number of countries, however, which insist on being vigorously neutral and some of these have not cooperated at all in any effort of this kind.

The unsatisfactory record of shipments of rubber from southeast Asia to Russia and China was explained to the subcommittee, although not justified, as follows: It was claimed that Russia, China, and any of the satellites could buy all of the rubber they were willing to pay for in other rubber-producing areas not under the jurisdiction of the United Kingdom or any other North Atlantic Treaty power. It was argued by representatives of the executive branch of our Government that it would be futile for the British to insist on cutting off such

shipments from Singapore since doing so would not harm Russia and would tend to aggravate the unrest and Communist infiltration in Malaya. In addition, the point has been made that Russia continues to sell substantial quantities of wheat and timber to England only because she is able to spend the sterling acquired from this trade for essential imports. Rubber is one of the principal sterling imports available to Russia. It was argued that if rubber from Malaya were cut off, the shipments of grain and lumber to the United Kingdom would be cut off, too, and there is at present no alternative source for these products.

Shipments of rubber from Malaya to Russia, China, and Hong Kong are shown in the following table:

Natural rubber: Shipments from Malaya to the U. S. S. R., China, and Hong Kong in 1949 and by months in 1950 and 1951

[In long tons]

Period	U. S. S. R.	China	Hong Kong	Total
1949.....	63,414	6,990	23,288	93,692
1950:				
January.....	3,675		542	4,217
February.....	3,825		248	4,073
March.....	10,599		579	11,178
April.....	5,800	250	377	6,427
May.....	7,450		189	7,639
June.....	4,448		3,522	7,970
July.....	12,175	1,490	2,337	16,002
August.....	10,815	3,513	6,642	20,970
September.....	4,635	4,772	5,136	14,543
October.....	1,272	12,061	11,791	25,124
November.....	1,904	9,302	5,575	16,781
December.....	1,300	7,180	7,429	15,909
Total.....	68,898	38,568	44,367	150,833
1951:				
January.....	175	2,715	12,781	15,671
February.....	7,926	9,680	4,331	21,937
March.....		7,012	8,744	15,756

Source: Rubber Study Group.

On April 9, 1951, the British imposed quantity limitations on the export of rubber from the United Kingdom and the British territories to China and the rest of the Soviet bloc. On May 10, the United Kingdom announced that no further shipments of rubber to China would be permitted this year.

It should be pointed out that only the United States, the United Kingdom, Canada, and Japan have instituted any form of control over exports of rubber to China or the rest of the Russian bloc and that even the British territories still permit exports to Russia and the satellites (except China) subject to quantity limitations which have been determined without consultation with the United States.

V. OBJECTIVES OF CONTROLLING EXPORTS TO RUSSIA

The executive branch maintains that the United States has always had a clearly defined policy toward controlling exports to the Russian bloc. The precise statement of this policy is and has always been kept secret even from the committee. Witnesses from various departments and agencies of the Government left the subcom-

mittee with the impression that the application of the policy to specific situations has not always been clear in their minds and that the various agencies have held divergent views on important issues.

Some officials have testified that every article useful to any army in the iron-curtain area should be cut off. Others have said that only certain key items really make any difference to the Soviet war machine and that a rather complex program of controls aimed at these critical items and directed also toward making the satellite countries look toward the West rather than entirely to Russia for supplies and for barter transactions by which the free world gains more than it gives should be undertaken.

Up to the present, there has never been any public announcement that our export controls are directed at anything but war materials.

A statement of the full significance of such an effort was presented by a witness appearing before the subcommittee, as follows:

(1) Every decision in the East-West trade field involves to a great extent the three elements of (a) the functioning of the economic machine, both here and abroad, as a base upon which military potential is constructed; (b) the technical military situation; (c) our political objectives, such as acquiring allies, neutralizing uncertain countries, and winning away the present supporters of the opponent.

(2) A judgment based upon a consideration of any one element only or upon a too rigid insistence upon only one element may result in a failure to reach the objective, because one or both of the other two elements may be brought into play to influence the situation adversely.

(3) The problem is unlimited in geographical extent, as an integrated whole, and no part can have any real existence as an independent entity separated from the other two parts.

The attainment of such objectives, it must be recognized, involves rather complex programs and operations. Almost everyone agrees that it is desirable to encourage the various Russian satellite nations to maintain their national identities, to resist being absorbed into Russia itself, and ultimately to break away from Russian domination.

An absolute embargo on all items to the satellite countries could defeat this purpose. The iron curtain countries constitute an almost irreplaceable source of supply for a number of commodities essential to the nations of Western Europe. If coal from Poland, or timber and grain from behind the iron curtain, were to be withheld from Europe the impact would be serious. The pressure for added financial assistance from the United States would be greatly increased since most of these commodities could only be obtained from dollar sources, if at all. Estimates of the amount involved vary considerably but conservative figures ranging up to \$1 billion have been talked about, not to mention transportation costs. Even if we accepted these added burdens, which is unlikely, it would be most difficult to supply even the coal quickly enough to prevent freezing next winter because of the shortage of ocean-shipping space. The shortage of lumber is currently so severe that no alternative supply could be found for that commodity at any price. In the case of grain, our reserves are quite limited in view of our war requirements and the freight-car shortage would make a bulk movement to the seaports most undesirable if it could be avoided.

It is equally clear that it would be a severe blow to the European defense program and explosive under present world conditions to have these masses of people without fuel and bread.

If certain supplies necessary for the existence of the people in Europe and the satellite countries are cut off completely, as a result of our action, then the great suffering and loss of lives on both sides of the iron curtain will be blamed on the United States. What could be more devastating propaganda material than this? Moreover, the people in the satellite countries would be driven to look entirely to Russia for any future supplies, with a result that the economy of that country would become even more dependent on and integrated with that of Russia. Control officials indicate that, under the circumstances, limited quantities of consumers goods and materials for producing such goods sent to satellite countries will give us a political advantage that would more than offset whatever small value such commodities might have.

Sometimes it is better strategy to permit a limited and perhaps intermittent supply of certain significant items to go to Russia rather than to cut them off entirely, because if the flow is completely ended, Russia at once begins developing a new source of supply internally and as a consequence ceases to be vulnerable in this respect. If, on the other hand, there remains hope that imported supplies may be forthcoming in the future, the Russians may use their limited machinery and resources for higher priority purposes and continue to "make do" with the limited supplies coming in from outside. The blow to the Russian war machine which would result from an absolute cut-off, in case of an all-out war with Russia, would be much more severe than the imposition of a complete embargo under present conditions.

Even in the case of metals and machinery for direct military production there may be occasions where it might be to the advantage of the western nations to exchange with Russia. While we are trying to make ourselves independent of iron curtain sources for items essential to military operations, there apparently are instances when, by allowing the export of a lower priority strategic commodity, we can get in return a larger amount of a higher priority material, which gives us a substantial net advantage.

In order to carry on strategic operations of this nature it is essential that the executive branch be given a considerable degree of discretion and it is clear that legislation prohibiting broad categories of exports might prevent the attainment of these objectives.

Nevertheless, the accomplishment of such complex adjustments of the flow of commodities requires close agreement with other friendly nations as to strategy, a well-organized and administered international organization to carry out the actions agreed upon, and, more important than anything else, a comprehensive, well-defined plan of action.

VI. UNITED STATES ADMINISTRATION OF THE CONTROL OF EXPORTS TO THE RUSSIAN BLOC

At present no single agency, department, or organization in Washington is responsible for the job of initiating, planning, and administering an international program for regulating the flow of exports to the iron curtain area with the objective of retarding Russia's military build-up and advancing the defense effort of the free nations.

This does not mean that nothing is being done in this direction. A lot is being done and substantial progress has been made as has been

outlined above. The point is, however, that while most of the executive departments, together with the ECA and other agencies, are taking an active part in the development and execution of such programs, it is a sort of byproduct for each of them. Representatives of the departments and agencies meet in a number of interdepartmental committees to consider which items should be placed on the various control lists and recommend other action. Nevertheless, no individual, organization, or agency has been given this big job to do or can be held accountable for the results.

The control of exports from the United States is the responsibility of the Secretary of Commerce, by order of the President, under the Export Control Act of 1951 (Public Law 33, 82d Cong., 1st sess.). The object of these controls is to protect the domestic economy, to further the United States foreign policy, and to safeguard the national security. In administering the act, the Secretary of Commerce consults with the Advisory Committee on Export Policy on which the Departments of State, Defense, Treasury, Agriculture, Interior, the National Security Resources Board, the Central Intelligence Agency, the Economic Cooperation Administration, the Atomic Energy Commission, and the Defense Production Administration are represented.

The detailed work of this committee is the responsibility of the Operating Committee which is made up of representatives of the same agencies at what they refer to as "the working level."

It should be emphasized that these committees are concerned with all aspects of export-control policy, several of which receive a good deal more attention (the international allocation of critical materials essential to the defense program, for example) than regulating trade with the iron-curtain countries.

Under these two committees, there is a Subcommittee on the R-Procedure, made up of representatives of the same agencies, which is responsible for the national security aspects of United States export controls. This subcommittee appears to be the Washington organization which does most about determining what items should be embargoed to the Russian bloc by ourselves and by foreign countries.

The Cannon amendment (see p. 5) provided that United States assistance was to be cut off to foreign nations whenever the National Security Council found that such—

trade with the Union of Soviet Socialist Republics or any of its satellite countries
* * * to be contrary to the security interests of the United States.

In order to fulfill its obligations under this legislation, the National Security Council established a Committee on East-West Trade made up of representatives of the following departments and agencies: State, Defense, Treasury, Commerce, ECA, National Security Resources Board, Central Intelligence Agency, Joint Chiefs of Staff, and Mr. Harriman's office.

Although it is too early for all organizational matters to have been worked out as yet, this same committee presumably will continue to function in carrying out the new responsibilities given to the National Security Council under the Kem amendment, section 1302 of the Third Supplemental Appropriation Act, 1951 (Public Law 45, 82d Cong.) (above, p. 5).

This committee and the National Security Council itself, however, have served to bring matters to the President for coordination and policy guidance rather than to initiate and operate a program.

The functioning and responsibilities of the major departments and agencies with regard to control of exports to Russia and the satellites may be roughly summarized as follows:

1. *Department of Defense.*—The Defense Department is actively interested in taking action to retard the build-up of the Russian war potential and plays a major role in the interdepartmental committees on export control. Nevertheless, its responsibility is primarily military and its attention must be focused primarily on Korea. We are not at war with Russia, and such matters as seeing that Western Europe has Polish coal, or attempting to break the satellite countries away from Russia, have been regarded as somewhat beyond the scope of the Department of Defense.

2. *Department of Commerce.*—Because of its responsibility for controlling our own exports, the Department of Commerce has a large staff of commodity experts and other technicians who can give informed guidance as to control strategy. Furthermore, the Department is forced to give a lot of attention to the export-control policies of foreign countries, since our own commerce is unnecessarily handicapped if we cut off shipment of commodities from Russia, which are allowed to move freely in other countries. So far, however, the Department of Commerce has not felt that it should assume the role of initiating strategy or administering a program on a world-wide basis for reducing the military potential of the Soviet-controlled area and strengthening our friends and allies.

3. *Department of State.*—The State Department recognizes the importance of the control of exports by ourselves and foreign countries in the attaining of the objectives of United States foreign policy. It has the responsibility for carrying on all negotiations with foreign governments concerning export controls. This has involved extensive discussion as to which items are strategic and how seriously other countries may be hurt if they cut off certain shipments to Russia. As a consequence, the State Department has assumed a major role in the program for controlling exports from foreign countries to the Soviet-dominated area.

It was the impression of the subcommittee that the requirement of the foreign countries for commodities and the obstacles which prevent them from taking action on specific issues appear to be somewhat larger when seen from the perspective of the State Department than when noted by other agencies.

4. *Economic Cooperation Administration.*—The Economic Cooperation Administrator has a direct responsibility for seeing that Marshall-plan countries control their exports to Russia and the satellites. Section 117 (d) of the Foreign Assistance Act of 1948 (see p. 4) provides that ECA material should not be used to produce items for shipment to the iron-curtain countries if the United States forbids the export of such items to that area. Furthermore, the ECA is required not to provide assistance to any country which exports to the Russian bloc any prohibited items under the terms of the Kem amendment unless the National Security Council makes an exception.

In order to conform to these requirements, the ECA has always maintained a staff devoted to the control of east-west trade and has

been active in the development of policy. Because the primary objective of the ECA has been the recovery of Western Europe, the ECA has been reluctant to advocate imposing controls on exports from the participating countries which would be a serious economic burden to the countries receiving aid (cutting off an important market for an important industry, for example). Furthermore, ECA has always been interested in getting as large a volume of commodities as possible from behind the iron curtain for Marshall-plan countries since, in general, the more Western Europe gets from Russia and the satellites, the less has to be supplied by the ECA.

While the ECA has been partially responsible for the development of the program for restricting the flow of strategic commodities to the Russian-dominated countries, it has never focused its attention primarily on doing the best possible job of cutting off supplies from the Red armies. Instead it has tried to do the best possible job of promoting European recovery while adequately protecting the security of the United States.

The other executive agencies which have been listed as participating in the interdepartmental committees play smaller roles and have less direct interests and responsibilities than those just mentioned. It appears to be clear that at present no agency in Washington is recognized as being responsible for conducting, in cooperation with our allies and other friendly nations, what might be called an economic cold war against Russia and the satellites.

VII. INTERNATIONAL COOPERATION IN THE CONTROL OF EXPORTS TO THE RUSSIAN BLOC

At the present time there is no formal international organization (including the United Nations, the North Atlantic Treaty Organization, and the Organization for European Economic Cooperation (OEEC)) which has been willing to take any formal or official action to control exports to Russia and the European area behind the iron curtain, although many member nations of each of the organizations are taking action individually.

The General Assembly of the United Nations on May 18, 1951, recommended—

that every state * * * apply an embargo on the shipment to areas under the control of the Central People's Government of the People's Republic of China and of the North Korean Authorities of arms, ammunition, and implements of war, atomic energy materials, petroleum, transportation materials of strategic value, and items useful in the production of arms, ammunition, and implements of war * * *

Since this is only a recommendation any member may disregard it and each nation is free to make its own determination as to "which commodities exported from its territory fall within the embargo." Furthermore, this action does not include Russia or any of the satellites other than Communist China and Communist North Korea.

Effective action by the United Nations to control exports so as to really impede the military program of the area behind the iron curtain would be possible only if the embargo were extended to the entire area under Soviet domination. The administration of such an effort by the United Nations would be difficult if not impossible at this time.

The Organization of European Economic Cooperation (the OEEC) to which all nations belong who participate in the Marshall plan has

never been willing to act on controlling exports to the Russian-dominated nations. This position has been based on the fact that the organization exists and was created to bring about the economic recovery and unification of Europe and coercive action against Russia does not fall within its scope. In addition, certain member nations are unwilling to go on record publicly as cooperating in any export control program, although most of them have been willing to establish such controls on the basis of individual consultation.

The North Atlantic Treaty Organization exists solely to safeguard the security of its members. Nevertheless, it has not been willing to act as an organization to restrict exports to Russia and the satellites except to conserve supplies of scarce materials needed for the defense of the participating nations. Despite the fact that existing formal international organizations have not taken any direct responsibility for the development of our international export control program, it should be reemphasized that the subcommittee has been informed that an informal coordinating group has existed for more than a year for the purpose of coordinating the export controls exercised by the major industrial and trading nations in Western Europe. The United States was instrumental in developing this mechanism for developing an international program in the mutual security interest of all its members, and the results achieved through negotiation in this forum have been very considerable.

The North Atlantic Treaty countries explain their position in this matter by emphasizing the purely defensive nature of the NATO and making a distinction between export controls aimed at keeping materials essential for defense from getting away, and a control program which is focused on the effect produced on the arms program of the iron curtain nations.

This summary indicates that none of the existing formal international organizations with which the United States is associated and which are directly connected with the cold war is well suited to direct and coordinate an international program of export controls. Aside from their apparent unwillingness to take on such a job, consideration must be given to the fact that the membership list in each is not well suited to such a purpose.

The United Nations includes Russia and the satellites and the veto makes effective action difficult in addition to the lack of enforcement powers. The OEEC includes Sweden and Switzerland which are militant neutrals unwilling to join in any collective defense action. The NATO does not include Germany and nations in other parts of the world which produce strategic materials.

VIII. ACTION ON PROPOSED LEGISLATION

The committee gave careful consideration to H. R. 1621 and H. R. 1939, which differ in a number of respects. Both provide that the United States should establish a list of war materials and that any foreign country permitting the export to Russia and the satellites of these materials would be denied economic or financial assistance.

Somewhat similar action to that proposed in these bills is favored, but it is believed that additional provisions are necessary to obtain the desired results of minimizing the flow of strategic exports to the iron-curtain area. Also these bills do not mention military assistance, which is a major consideration.

The committee recommends the substitution of a clean bill for the two bills considered.

IX. FINDINGS

1. It is the judgment of the committee that the United States Government has developed very effective export controls of shipments to Russia and her satellite countries of items which have been determined officially to be of strategic importance. Continual vigilance is necessary, however, in order to detect leaks and to prevent fraud.

2. The committee finds, however, that the United States Government has been slow in determining what items should be controlled. It is questionable whether or not some very important items, subject only to quantity limitations today, should be cut off. Also, progress in obtaining effective cooperation from other nations leaves a lot to be desired.

These delays have been due in part to the fact that at present no United States official has been given the responsibility for initiating and supervising a joint program for our Government and other cooperating nations to control exports to the countries behind the iron curtain.

In part, delay has been due to the fact that the various departments and agencies have not reached agreement or received a clear directive as to whether the military impact of controls upon the Soviet-dominated area should be considered only or whether a program which would include economic and political objectives in addition should be undertaken.

3. The committee finds that the control of exports to the Russian bloc by other nations is much less effective than the controls of the United States Government. No other nation except Canada has cut off exports to Communist China completely and no other nation except Canada has accepted completely the lists of strategic commodities which the United States enforces with respect to its own exports.

The principal reasons for this situation are as follows: Some countries do not agree with us as to the strategic value of certain items to Russia; some countries are reluctant to cut off shipments to the iron-curtain countries either because of the value of the things they get in return, or because they are afraid to provoke Russia, or because they are unwilling to curtail shipments while their neighbors continue to carry on business as usual, or because they are aggressively neutral. Furthermore, certain nations (notably Western Germany) which are officially cooperating in the control of exports do not have adequate procedures to attain the objective desired.

The committee recommends the submission of a draft bill for the two bills mentioned.

THE FINDINGS

1. It is the judgment of the committee that the United States Government has developed very effective export controls of this nature to Russia and has selective controls of items which have been determined officially to be of strategic importance. Additional vigilance is necessary, however, in order to detect items and to prevent them.

2. The committee has observed that the United States Government has been very active in the development of export controls. It is a very thorough manner, and it is very effective. It is not only to prevent the export of strategic items, but also to prevent the export of strategic items. It is not only to prevent the export of strategic items, but also to prevent the export of strategic items.

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